

# **Information Paper**

## **The Development of the Co-operative Movement in Victoria**

**Issued by The Ministerial  
Advisory Committee on  
Co-operation**

**June 1984**

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# Introduction

\* In this period there were 62 new general co-operatives registered, and 63 general co-operatives dissolved. \*\*\*

1. This Information Paper has been prepared by the Ministerial Advisory Committee on Co-operation (M.A.C.C.) appointed by the Minister of Housing in February 1984 to review the Co-operation Act and to identify appropriate mechanisms for developing the co-operative sector. The Committee continues the work of the Legislative Review Committee appointed by the Minister of Housing in June 1982, which circulated a Discussion Paper on Co-operative Societies in June 1983. There were 21 written responses to the Discussion Paper. In the Discussion Paper the Committee proposed that it might be advisable from time to time for the Minister for Housing to appoint Ministerial Advisory Committees with co-operative, public servant, Governmental and expert representation. The establishment of M.A.C.C. is in response to this proposal.

2. This paper has two main purposes. Firstly, it seeks to identify the main issues which confront the co-operative movement and the various responses it may make in the face of these new opportunities. Secondly, the paper constitutes an invitation to members of the co-operative movement and to other interested people: their reactions — indeed *your* reactions as reader of the paper — are of vital concern to the Committee. It is fresh ideas, new and renewed enthusiasm and commitments, and the voice of experience which will make the Committee's work a success. Public responses and submissions are welcomed — no matter how lengthy or how brief they may be. The Committee will be happy to receive them up until the 31st July, 1984. The Committee also extends an invitation to its Seminar on co-operation, to be held on Saturday, 23rd June, 1984.

3. After detailing its terms of reference and outlining the co-operative movement with which it is concerned, the paper proceeds to identify and discuss the Principles of Co-operation set down by the International Co-operative Alliance. It then discusses the exciting prospect that worker co-operatives could generate new, and regenerate old industries, and maintain and create employment opportunities. Housing Co-operatives are then discussed as an important initiative which demonstrates how the co-operative structure can be used to deliver assistance to disadvantaged groups within our society. Worker and housing co-operatives are excellent concrete examples of the application of co-operation. The discussion of co-operation in practice is taken up again in the next section which is concerned with such key operational questions as the types of co-operatives, their membership, the role of directors and the place of equity.

4. The development of the co-operative movement is also of vital importance and has a number of aspects, including the need for education in co-operation (should it be in the normal school curriculum as it is in many other countries), and the means by which such development might be

financed by the movement itself through the establishment of a co-operative bank. The role of government is a recurring theme throughout the paper and the issue is specifically addressed in the final section. The co-operative movement and government have much to offer each other, but equally they have their own interests to pursue. This relationship is an essential one to which a great deal of thought and good sense must be committed.

5. This paper owes much to those individuals and organisations who responded to the earlier discussion paper on co-operation. Their ideas are now a vital part of the process of consultation and discovery being undertaken by the Committee. Your participation is most warmly encouraged.

6. This Information Paper addresses the terms of reference adopted by the Ministerial Advisory Committee on Co-operation:

- I. To establish the philosophy and principles embodied in co-operation and identify the essential elements of co-operative theory and ideology.
- II. To examine the philosophy and principles embodied in the different forms of co-operatives currently in existence and assess their consistency with the principles established in (1).
- III. To assess the relationship between co-operative theory and practice and the philosophy and principles of the labour movement.
- IV. To assess whether co-operatives and their development are consistent with Government policy and in particular with Government policy on:—
  - Maintenance and creation of jobs.
  - Assisting low income groups.
  - Developing the rights of workers.
  - Workplace democracy.
  - Occupational health and safety.
- V. To consider how changing economic, social and political factors have affected the philosophy and principles of co-operatives.
- VI. To formulate sets of guidelines for the practical application of the Government's role in establishing and assisting:—
  - Co-operation between co-operatives.
  - Industrial/Economic democracy.
  - Assisting low income groups.
  - Protecting the rights of the co-operative worker.
  - The marriage of commercial principles and practice with social commitment.

In preparing this Information Paper the Ministerial Advisory Committee on Co-operation seeks also to promote the development of the co-operative movement, and to maximise the contribution it might make to the community.

7. There are three major types of co-operatives:

- Worker or industrial co-operatives — the members are the workers who join together to conduct a business and enjoy the benefit of employment. Continued employment is a central objective.
- Consumer co-operatives such as credit, food, or housing societies — the members are individuals who join together to provide common goods or services. The provision of continued service/benefit to members is central.
- Marketing/producer co-operatives — the members are self employed individuals/businesses providing similar products/services who join together to collectively buy and/or sell goods and services.

There are also conversion co-operatives which are existing businesses in the process of conversion into co-operatives, and hybrid worker co-operatives which include worker and non-worker members.

There are at present 3400 co-operatives in Victoria with combined assets of \$6 billion and some 500,000 members.

# Co-operative Principles

8. Co-operation is a way of organising an economic or social enterprise in order to make the best use of human and economic resources while ensuring democratic ownership and control. The principles of co-operation, first laid down by the Rochdale Pioneers 140 years ago and reformulated by the 23rd Congress of the International Co-operative Alliance in 1966, are as follows:

## **Open Membership**

Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.

## **Democratic Control**

Co-operative societies are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.

## **Limited Interest On Share Capital**

Share capital should only receive a strictly limited rate of interest.

## **Equitable Distribution Of Surplus**

The economic results arising out of the operations of a society belong to the members of that society and should be distributed in such a manner as would avoid one member gaining at the expense of others. This may be done by decision of the members as follows: (a) by provision for development of the business of the co-operative; (b) by provision of common services; or, (c) by distribution among the members in proportion to their transactions with the society.

## **Co-operative Education**

All co-operative societies should make provision for the education of their members, officers, and employers and of the general public, in the principles and techniques of co-operation, both economic and democratic.

## **Co-operation Between Co-operatives**

All co-operative organisation in order to best serve the interest of their members and their communities should actively co-operate in every

practical way with other co-operatives at local, national, and international levels.

In this section the implications of these principles are developed, and their relationship to other forms of economic organisation — capitalism and state socialism — explored.

9. In its Discussion Paper the Legislative Review Committee argued that adherence to co-operative principles was essential and that in particular "attention will need to be given to distinguishing the essential elements of advancing the economic interests of members in situations where ownership is divorced from management. The essential difference is not that a co-operative society may not make a profit, but that the profit (usually called a surplus) is returned to the members who are also the people who generated the surplus. In its historical development the co-operative sought to exclude investors who contributed only capital and expected a return of their capital by both interest and capital gain. It is sometimes difficult to retain this distinction in modern capital-intensive enterprise, and this partly explains why most, though not all, co-operative societies are relatively small."

10. Perhaps a useful way of looking at co-operation and co-operative theory is to distinguish between property (capital) and personal (labour) rights in co-operatives and other forms of business enterprise. Critical to this distinction is an understanding of the concept of ownership. Ownership concerns the individual and/or collective rights that individuals and organisations exercise over property — the right to produce or provide and sell goods and services and the right to determine who will and will not be employed. In Australia the dominant form of ownership is capitalist enterprise. It would be useful, therefore, to identify the differences between capitalist (ie. company) and co-operative enterprise:

	<b>COMPANY</b>	<b>CO-OPERATIVE</b>
Objective:	Profit as an end in itself.	Profit (surplus) as a means to an end.
Membership	Individuals and/or Institutions.	Individuals primarily. Other co-operatives subject to rules.
Shareholding	Changing value of shares. Unlimited interest on shares. No limit on shareholding.	Constant value of shares. Limited interest on shares. A 20% limit or less on proportion of shares held by any one shareholder.
Ownership and Control.	Ownership vested in capital	Ownership vested in members

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COMPANY	CO-OPERATIVE
Majority of shares.	<i>Majority of members.</i>
Number of votes depends on number of shares.	One vote per member irrespective of number of shares.
Shares can be publicly traded and sold.	Shares cannot be publicly traded and sold.
Management responsible to capital	Management responsible to members

11. The differences between a co-operative and a company, therefore, centre on the functions and treatment of capital. In a company the owners of capital own and control the business with their wealth determining their number of shares and the control they may exercise. In a co-operative, however, there is a separation of ownership and capital. The co-operative is owned equally by all members irrespective of the size of their shareholding (wealth). Given the importance in the modern world of capital intensive enterprise, it is appropriate to consider whether or not existing co-operative principles and practices restrict the role of capital and whether or not this objective is realistic and realisable. It is also relevant to briefly consider the role of capital in state socialist countries where business enterprises are owned by the State for society, i.e. public ownership. The economic surplus (profit) does not accrue to private individuals except on a limited scale, but is generated by economic enterprise on behalf of the society as a whole. The surplus is distributed by the enterprise to workers, retained for investment, and remitted as payments to the State. Economic surpluses are not ends in themselves but the means for achieving other ends such as full employment and non-profit production. It can be seen, therefore, that there is a commonality between socialist and co-operative enterprises. Indeed the first recorded usage of the term 'socialist' occurred in the *Co-operative Magazine* in 1827. The critical differences lie, of course, in the role of the State in capitalist and socialist economies. The co-operative movement has historically stressed the need for self-reliance and independence from the State.

12. Co-operative approaches to capital differ and this is reflected in diverse interpretations and divergent practices. The Mondragon co-operatives in Spain have adopted a relatively high equity policy. The equity holding is the same for each member. The value of shares is relatively constant. The Plywood co-operatives in the U.S.A. have allowed shares to appreciate and this has made the cost of entry into the co-operatives prohibitive. The Job Ownership (JOL) and Industrial Common Ownership (ICOM) co-operatives in the U.K. have a nominal shareholding of one share per member. However, they adopt different and opposed equity policies and practices. ICOM shareholders are restricted to one £1 share.

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Shareholding was maintained only at the insistence of the Registrar of Co-operatives. The policy expresses a commitment to collective rather than individual ownership of wealth. The JOL worker co-operative, however, require workers to make a capital contribution equivalent to not less than 25% of the estimated gross earnings of the lowest paid. Under the U.K.'s Industrial and Provident Society Act individual members of co-operative can hold shares up to the present legal limit of £10,000.

13. Canada's National Task Force on Co-operative Development has argued that co-operative capital represents the shared commitment of members to the philosophy of co-operation as a means of self-help. It represents the stakes of individual members in the economic and social decisions affecting themselves and their communities. In the light of our earlier distinction between personal and property rights, it would perhaps be helpful, therefore, to compare how property and personal rights are affected by different co-operative structures and policies:

	<b>Property Rights Reinforced</b>	<b>Personal Rights Reinforced</b>
Shareholding	Unlimited number of shares.  Appreciating/ depreciating value.  Preferential shares.	Limited/one/no shareholding.  Constant value.  No preferential shares.
Equity	High	Low or individual equity
Surplus	Co-operative discretion on distribution.	Limited/no surplus to members.
Winding-up	Distributed to individual members.	Not distributed to individual members. Used for co-operative development.

14. In considering property rights in a co-operative, it is necessary to distinguish between the collective property rights of the total membership and individual member's property rights. While restricted, collective property rights do exist for the membership of a co-operative, with the members able to determine the usage of assets and the allocation of the surplus on a democratic basis. In a small co-operative with a limited membership there is a merging of collective and individual rights which does enable a few individuals (as in a partnership) to exercise considerable disposable rights over property.

15. Worker co-operatives have a distinct capitalisation problem not shared by consumer and marketing co-operatives. More individual capital per members is needed and the risks are higher. This has forced some

worker co-operatives to admit shareholders who are not workers. It is appropriate, therefore, to explore the means by which worker co-operatives might achieve the high levels of capitalisation required to operate as successful economic enterprises. They are clearly disadvantaged in comparison with consumer and marketing co-operatives which require a much lower level of capitalisation per member. The issue is complicated by the fact that co-operatives are proud of their commitment to self-reliance and consequently may question excessive government assistance and loss of independence. The argument of Canada's National Task Force on Co-operative Development is that each worker in a worker co-operative owns a significant share in the capital of the co-operative. This is a problematic assessment when it is considered that the worker members must contribute a capital that is disproportionate to that contributed by members of marketing and consumer co-operatives. The question of the appropriate means of capitalising worker co-operatives is an issue of fundamental importance.

**16.** Mr Frank Thompson from the Common Ownership Development Agency of New South Wales has put the view that worker co-operatives should not be located within the traditional co-operative movement as there are many difficulties and the ownership structures are different from traditional co-operatives. The New South Wales Worker Co-operative program struggled initially to cope with the Co-operation Act, which has little relevance to worker co-operatives or industrial democracy. Worker co-operatives in N.S.W. are incorporated as common ownership companies under the Corporate Affairs Commission, using a form of Memorandum and Articles of Association, which incorporate the six international co-operative principles. The N.S.W. program requires a relatively high equity from workers. This contrasts with the Victorian Co-operative Development Program which encourages a low equity. The latter approach has been endorsed by the Trans National Co-operative and Labor Resource Centre study of worker co-operatives in N.S.W. and Victoria. Overall, Victoria is seeking to accommodate all sectors of the co-operative movement under the Co-operation Act, and this will be re-written as required.

**17.** Equity needs to be considered in the context of alternative capital formation models which equally meet the philosophy of co-operatives. There are a number of different structural models for capital formation:

- A small initial equity which increases through member usage with a certain portion of the surplus allocated to members and retained in their equity accounts to serve as capital.
- Direct charges and fees for service where consumer co-operatives raise the initial capital through an initial equity.
- A low initial equity and a reliance on reserves and retained savings to meet eventual capital requirements.

**18.** The question of capitalisation illustrates how the co-operative philosophy and principles need to be reviewed to continually assess the impact of current and prospective socio-political and economic trends on

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their application. The existing co-operative principles were adopted in 1966 by the International Co-operatives Alliance in response to a Report of the I.C.A. Commission on Co-operative Principles. The Report's commissioning and its subsequent adoption were a clear recognition by the I.C.A. of the need to establish the continuing adequacy of co-operative principles and whether or not they needed to be changed and/or substituted. Quite obviously, however, a listing of co-operative principles does not in itself constitute a co-operative practice. Within a broad framework of understanding and agreement, these principles are subject to diverse interpretations and applications. Given the co-operative commitment to self-help, mutuality and equality, it is necessary to consider whether the interpretation and application of the principles is consistent with these commitments.

**19.** It may, indeed, be appropriate to re-define and clarify the co-operative principles. The VCCA has noted that it is "vital that co-operatives regularly review their operations, commitment to social and financial objectives and overall philosophy". For example:

- Self-help remains a critical characteristic of co-operation and Government policies and programs should encourage and facilitate self-help. But, in an increasingly structurally and technologically complex society, interdependence of organisations is an inevitability.
- Independence from Government remains a critical characteristic of co-operation. But, co-operatives need to re-examine and redefine the relationship with the State. The policies and activities of the State inexorably impact on the co-operative sector and, indeed, workers/industrial and housing co-operatives are critically dependent on direct Government assistance.

**20.** In the Discussion Paper the Legislative Review Committee proposed that there should be a definition of co-operatives in the Act and that it be based on the existing co-operative principles. The Co-operative Federation of Victoria has suggested that the principles be abbreviated in the definition of a co-operative sector in the Act and reproduced in full as an appendix. The Federation recommends that a co-operative be defined as an organisation which adheres to the internationally recognised principles of co-operation. This may present some problems if the incorporation of some co-operatives is made problematic by a change not in their adherence to the Co-operation Act but in the international principles. It would also be necessary to continually consider the appropriateness of the internationally recognised principles of co-operation — in particular their definition and interpretation.

**21.** No issue better illustrates the need for a continual reassessment of the co-operative principles than the demands of the modern marketplace. For example, in response to the Legislative Review Committee's Discussion Paper both the Australian Society of Accountants and the Institute of Chartered Accountants in Australia have queried the wisdom of business enterprises being incorporated under the Co-operation Act 1981 at all and argued for "minimising the variety of legislation and government officers regulating Co-operatives". It is contended, therefore, that a

distinction needs to be made between business-commercial and social-community interest co-operatives. The business-commercial co-operatives "should be obliged to work within existing commercial legislation particularly the Associations Incorporation Act, and the Companies (Victoria) Code". This argument appears to assume the primacy of commercial efficiency for business enterprises and that the co-operative form is irrelevant to a business enterprise.

**22.** It may be argued in response that co-operatives are a desirable form of business enterprise because of their democratic structure and potential to democratise workplaces and/or meet social as well as economic objectives. As VCCA has put it: "Whilst the application of commercial principles and practices of management are applied, credit societies still adhere to the spirit of co-operation and the philosophies that distinguish all co-operatives. We believe that there is no conflict between sound commercial practices, attractive premises and accepted co-operative principles and philosophy". The Southern Credit Co-operative Association Limited has also submitted: "There is no good reason why credit societies cannot continue to pursue a social (or socialistic) task while still maintaining all the attributes of sound business management". While these comments are directed at credit societies, they are equally applicable to all co-operatives: a co-operative should be socially responsible *and* economically viable.

**23.** With appropriate education, business and financial support co-operatives could play a major role in economic and regional development. The possibilities for co-operative activities are unlimited. There are currently three growth areas for co-operative development — housing, food and worker co-operative. While the latter are currently not part of the mainstream labour market, there is considerable scope for their expansion into more traditional areas such as engineering, metals, transport, building and construction. Overseas experience indicates that there is considerable scope for the conversion of companies into co-operatives. New areas for co-operative activity could include health care and welfare services. These, and many other areas employ human resources which would respond well to the opportunities, and positive encouragement for democratic control and member rights which the co-operative structure provides. They are areas where the co-operative principles have a particular human meaning and relevance.

## Co-operatives and Trade Unions

**24.** What is common to both the co-operative and trade union movements is an emphasis on mutuality, self-help and equality. Co-operatives and trade unions share a commitment to democracy, open membership, education and co-operation. These commonalities are not surprising given that both co-operatives and trade unions emerged in the 19th Century as responses to capitalism. Established by the working class and its middle class supporters, co-operatives and trade unions sought to improve the individual and collective conditions of workers.

**25.** In overseas countries the co-operative and trade union relationship is substantial and developed. In Denmark trade unions support and fund their own worker co-operatives. Financial consultancy and educational services have existed since 1922. A co-operative investment fund was established in 1953. In Wales the Welsh Trade Union Congress has established a Worker Co-operative Research and Development Centre and a fund to assist workers to create their own co-operatives. In Italy the LEGA federation of co-operatives is linked with trade unions through its Communist and Socialist party affiliations. In Scandinavia and West Germany, trade unions were instrumental in establishing housing co-operatives. But, then, the successful Mondragon co-operatives in the Basque region of Spain were developed when trade unions were illegal organisations. Trade unions only became legalised in 1977.

**26.** Under its terms of reference the Committee is required to identify the actual and potential compatibility between the co-operative and labour movements. Trade unions originated as working class organisations, established to defend and extend the rights of workers in the workforce. They seek to represent the interests of labour against capital and are the industrial arm of the labor movement. They operate in public, private and co-operative sector enterprises. Because of this it is appropriate to consider the principles of unionism — the principles that influence the organisation and operations of trade unions — and to explore their compatibility with the Principles of Co-Operation as detailed in the previous section.

### Open Membership

Union membership is work-related and open to all workers irrespective of their politics, race, religion and sex in particular trades. While the decision to join unions in Australia is legally voluntary, unions favour compulsory membership and different unions are able to effect a de facto compulsory membership.

### Democratic Organisation

Unions are democratic organisations with the members having equal voting rights (one member, one vote), members participate in decisions affecting the union and members appoint/elect officers accountable to them.

### **Maintaining And Developing The Rights And Conditions Of Workers**

Unions have been established by workers to maintain and develop the rights of workers against the interests of capital. Unions have fought for and established existing wages and conditions including occupational health and safety provisions.

### **Professional And Trade Skills And Education Of Members**

Wage rates are based on work value assessments and, therefore, unions are concerned to maintain and develop existing values and wages. Critical to this is the maintenance and development of professional and trade qualifications and skills. The ability of trade unions to achieve their objectives depends on educating their membership. The emphasis that the union movement and Government places on the importance of education is demonstrated by the establishment of the Trade Union Training Authority.

### **Co-operation Between Unions**

Workers established unions to represent their common interests against the interests of capital. It logically follows, therefore, that unions have a common interest to act in combination. While unions do act together politically, industrially and organisationally, disputes between unions over jurisdiction and job demarcation have not been avoided.

27. While there are historical commonalities and relationships, trade union and co-operative principles have significant structural and organisational differences. A co-operative is a legally-established organisation — an association of individuals who voluntarily join together to achieve common economic or social objectives. Trade unions are legally-established organisations of workers who join together to achieve their objectives against capital.

28. The relationship between trade unionism and co-operation has been explored in two submissions to the Legislative Review Committee. The VCCA has recommended research to consider the role of workers in co-operatives, the possibility of greater worker participation in decision-making and the development of management approaches compatible with the philosophy and values of co-operation. This examination would require investigating the impact any changes could have on trade unions and their relationship to co-operatives. Member democracy does not of necessity exclude industrial democracy. The Trades Hall Council stated an interest in further discussions regarding worker co-operatives and affirmed the importance of maintaining award wages and conditions. The remaining 20 submissions did not, however, address the co-operative and trade union relationship. This silence could reflect an assumption that the relationship is of no special and unique significance to co-operatives and unions. On the other hand the THC's response indicates that worker co-operatives raise issues of concern regarding the co-operative and trade union relationship.

29. Trade unions seek to represent labour against capital and assume that there is an inherent conflict between these parties. Co-operatives however, have adopted a different organisational structure under which the members collectively own their enterprise. Capital is contributed by members as appropriate, but is entitled to only a limited return. This

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reduces the imperative which operates in capitalist enterprises to maximise profits (by, amongst other means, holding down wages) in order to maximise the return to capital. In a co-operative any surplus which may be generated is distributed to the members on the basis of their transactions with the co-operative, as common services to members, and as higher wages. A proportion of the surplus may also be invested in the enterprise. Workers in co-operatives are eligible to be members of trade unions. The members of co-operatives, however, are not exclusively workers, and workers may be members — not in their capacity of a co-operative worker — but rather as a user of the co-operatives service.

**30.** Co-operatives are member-based organisations subject to the ownership and control of membership. In consumer and marketing co-operatives the users of the co-operative's services are its members. In a worker co-operative the members are the workers in that co-operative. Co-operative democracy has been aptly described by Cruickshank Management Resources Pty Ltd: "A co-operative is any business organisation which is owned and controlled through its members. The members are those who participate in the business as consumers, workers or producers. Membership usually requires the payment of a membership fee. The profits are distributed to the members on the basis of patronage (buying at, working at, or selling through the business). Control of the business is exercised by the members through election of the Board of Directors on a one person/one vote basis."

**31.** Member democracy therefore should be clearly distinguished from workplace democracy. Members and workers in co-operatives do not necessarily share the same interests. The members of a co-operative may, for instance, be primarily interested in cheaper products and/or bonuses or rebates whereas the workers may be primarily interested in employment protection, increasing their wage levels and in receiving bonus payments. Quite obviously, choices have to be made as to whether members or workers benefit from the profitability of a co-operative. Because of its membership-base, and member-defined objectives there is a preference towards allocating benefits to members rather than workers.

**32.** Dominated by rural-based co-operatives, the co-operative and trade union relationship in Australia has been no different from that existing for other forms of business enterprise. For workers, the co-operatives have been employers of labour with hierarchical management structures which serve the interests of members. The member-democracy of co-operatives has not lessened the need for unions to represent the interests of workers. Industrial democracy models have been developed within traditional company structures rather than within co-operatives. Indeed, it could be argued that industrial democracy is inconsistent with member democracy and would give powers to workers which conflicted with the rights of members. However, the introduction of industrial democracy could be seen as a logical extension of co-operative mutuality. The democratic tradition of co-operatives should result in a greater emphasis on the rights of workers and conditions in the workplace than in other forms of business enterprise e.g., equal opportunity, occupational health and safety, and above award



wages. The Report of the I.C.A. Commission on Co-operative Principles did emphasise "the seriousness and urgency of the main problems involved in the co-operative movement's essential democracy under contemporary economic and social conditions". Of course, an emphasis on democracy does not necessarily mean its extension to workers.

**33.** Since 1979 government co-operative development programs in N.S.W. and Victoria have encouraged the emergence of worker co-operatives — an under represented form of co-operation in Australia. Worker co-operatives may be more relevant to trade unions than other forms of co-operation because both are interested in extending and developing worker control over work and workplaces.

**34.** The differing roles of workers in the worker and consumer/marketing co-operatives can be summarised as follows:

	<b>WORKER CO-OPERATIVES</b>	<b>CONSUMER CO-OPERATIVES</b>
Membership	Workers in co-op.	Users of co-operative. Workers may or may not be minority.
	Small/Medium	Large.
Board	Workers. Specialist non-workers may be members.	Users of co-operative. Workers unlikely to be represented. If represented, probably by management.
Equity	Usually low collective and individual equity potential and reality.	Low individual equity. Potential high collective equity.
Industrial	Developed and/ or developing.	Limited or not present.
Surplus distribution.	Workers	Users.
Workers	Self-employed	Hired.

**35.** Of the 370 million or so members of co-operatives affiliated to the International Co-operative Alliance only about 1.6 million are members of worker co-operatives. In recent years, however, there has been a rapid development of worker co-operatives. In the UK between 1975 and the end of 1983 more than 800 new worker co-operatives had been established. Worker co-operatives in the UK are being created at the rate of one per day. It has been estimated that the number of worker co-operatives in the EEC increased from 4,688 in 1970 to 12,644 in 1981 — the number of members increasing from 197,000 to 469,000. The number of worker co-operatives in Italy increased from 320 in 1970 to 2,148 in 1979. Italy now has about 2500 worker co-operatives. In France there are 500 worker co-operatives.

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Canada has between 70-80 worker co-operatives. Australia has approx-  
imately 30 worker co-operatives.

36. The U.S.A.'s Industrial Co-operative Association argues that only the worker co-operative satisfies the criteria of a democratic business because there is one member/one vote (not one share/one vote); the residual net income is a return to labor (not to capital); and the membership rights are personal rights (not property rights). In the consumer and marketing co-operatives, workers still sell their labour services to the co-operative. In worker co-operatives the traditional roles of employees and owners are abolished. If the democratic principle of government is that all and only the people who are governed should have a vote in electing their government, then, it may follow that the workers in a co-operative should elect the management of the co-operative. However, it could be argued that this is an inappropriate extension of political democracy.

37. A worker co-operative is owned and controlled by its worker members and consequently poses structural and role problems for themselves and trade unions. Co-operative workers as unionists have the difficulty of bargaining with themselves as owners. When workers in a co-operative are also members of it, there is a simultaneous reduction and aggravation of role conflict. Because of this dual role workers as owners of a co-operative may choose not to maintain award wages and conditions in order to increase the co-operative's competitiveness. They may also choose not to maintain occupational, skill and wage differences in order to rotate jobs, increase job satisfaction and equalise wages. If worker co-operatives encourage and practice industrial democracy, then, it could be assumed that unions are not necessary to represent their workers. Paul Martin has suggested that there could be differences between co-operatives and trade unions concerning political philosophies, organisational methods, wage differences and skill differentials. Martin also argues for integrating the co-operative movement into the labor movement, and recommends co-operative affiliation with the Labor Party and Trades and Labor Councils, the promotion of worker co-operatives within the labor movement, and the encouragement of co-operative workers to become trade union and A.L.P. members. Race Mathews has argued that both trade unions and worker co-operatives have a long-standing commitment to increasing worker control, and that this provides a basis for mutuality. He also argues that trade union support depends on co-operatives maintaining award wages and conditions, and on co-operative workers being trade union members. There is potentially an inherent role conflict for a worker who is both a unionist and an owner of a co-operative and in reality the conflict may not be resolvable. Role ambiguity may be the necessary consequence of accepting the advantages of co-operation for workers.

38. A worker co-operative is a democratically owned enterprise in which the workers control their work and workplaces and the distribution of the surplus (profits) of their labour. In a private enterprise the surplus becomes the property of the owner. Worker co-operatives could, therefore, be seen by trade unions as a form of worker control and their role within these co-operatives could be expanded rather than contracted. This expanded role, would, of course, depend on mutual understanding and accommodation

between the unions and the co-operatives. Given the close relationship between worker co-operatives and trade unions, there is a compelling logic for the workers to join appropriate trade unions and for the co-operatives to initiate discussions with the union movement. It would be inappropriate to initiate these discussions on the basis of wages, conditions and employment practices in co-operatives which may undermine existing trade union standards. The proper basis for co-operative and trade union dialogue on these concerns is a co-operative workplace practice that is both legal and accepted by trade unions. A further concern of unions could be hybrid worker co-operatives which include a mix of workers and non-workers as members: it may prove difficult for unions to effectively relate to these co-operatives

**39.** To the extent that worker co-operatives retain the division of labour between managing and managed, there will be management and worker interests and, therefore, a need for trade unions. It may be inevitable that individual workers will come into conflict with their employing co-operative, and appropriate, therefore, that their trade unions intervene on their behalf. Trade unions have industrial experience and skills which are of considerable relevance to co-operatives which are committed to improved equal opportunity, occupational health and safety and conditions of employment. In Mondragon, it was found that the potential for conflict was minimised where worker co-operatives were prevented from becoming so large that the individual worker became alienated from the decision-making process. It is unlikely that there will be an extensive development of worker co-operatives without the active support of trade unions. Trade unions could also play a critical role in ensuring that worker co-operatives maintain and develop their industrial democracy commitment and practice. There is also a general need for the democratic structure of all co-operatives to be reviewed and the appropriateness of developing industrial democracy considered. The consistency of this development with co-operative principles and the implications for member democracy must also be identified.

## Co-operatives and Housing

40. There are two basic types of housing co-operative, equity and non-equity. Until recently the main form of housing co-operative in Australia was the equity model, through which members purchase shares, obtain access to housing finance and gain rights to financial return in the form of dividends and/or capital gain. In a non-equity housing co-operative, property is held in common, shares are only nominal in value and there are no financial returns on shares to the individual.

Existing and proposed types of Australian housing co-operatives are defined and briefly discussed in the next section.

### Co-operative Housing Societies

41. These are equity co-operatives which assist low and middle income earners into home ownership. The societies receive Commonwealth State Housing Agreement funds at a preferred interest rate, for on-lending to shareholders who are chosen from the Ministry of Housing centralised waiting list. Once mortgages have been fully repaid by members, a society ceases to exist. The societies are administered by management groups who receive a management fee which forms part of a shareholder's monthly repayment for their house. To date, the societies have assisted over 105,000 families into home ownership. There are currently 1,925 Co-operatives Housing Societies in Victoria run by about 150 groups.

### Rental Housing Co-operatives

42. Rental co-operatives differ from the more familiar co-operative housing societies in that individuals are neither expected to pay for nor gain rights to own their own house. Rental co-operatives are non-profit, legal entities which enable their tenant members to work together as a group and democratically manage their housing. The houses managed are either owned in common by the co-operative or leased by the co-operative on a long term basis. Rental co-operatives are accessible to those on the lowest incomes because unlike home ownership, it costs nothing to join a rental co-operative and rent payments are income related. In a co-operative, there is no danger of defaulting as rent is automatically assessed on the basis of 25% of household income. As income rises and falls, so does the rent paid. The cost of maintenance and rates is a group rather than an individual responsibility.

43. For the one-third of Australians who cannot achieve access to home ownership, rental co-operatives are a way of obtaining decent, secure housing they can control — privileges which, until now, only home owners could enjoy. Rental co-operatives have the added advantage of providing a sense of community, a sense of belonging, and — through democratic management, and the application of co-operative principles — rental co-

operatives have the potential to provide self-respect, and as one American co-operator has put it, "a context for human dignity". In addition, their ability to respond to individual and local needs leads to a health diversity in management structures and housing stock types. The Victorian Government is concerned at the shortage of adequate private rental housing. Consequently, it is seeking to not only increase the size of the public rental housing stock but to also:

- diversify the type of housing and make it more responsive to local needs;
- give tenants greater control of their housing;
- create attractive, alternative strategies to home ownership for those who neither choose to be home owners nor can afford to purchase or maintain a home.

Rental co-operatives fulfill all these objectives.

#### **Leasing, Rental Co-operatives**

**44.** Essentially, a leasing co-operative is a method for handing over control of ordinary public rental housing to tenants themselves while ensuring that the housing stock is retained in perpetuity as part of the pool of public rental housing available to low income households not just for now, but for future generations. This form of co-operative was piloted by the Fitzroy Collingwood Rental Housing Association which began in 1978, and was evaluated for two years by a team from Melbourne University.

**45.** All of Victoria's present leasing co-operatives are based on the Fitzroy Collingwood model. Tenant members of each co-operative select housing on the open market within a local government area. This is spot purchased and renovated by the Ministry, then full management control over the housing is devolved to the tenants themselves. Each co-operative has a fully paid housing worker and its own office. These high fixed costs mean a co-operative does not become financially self-sufficient until it has between 35 and 50 houses. In order to ensure that communal bonds do not break down between tenant members, rental co-operatives are limited in scale to between 50 and 70 house. In a leasing co-operative, 100% of the capital funds to purchase a co-operative's housing is supplied by the Victorian Ministry of Housing. As a result the Ministry retains ownership title, only passing over management control via a long term lease. Because the Ministry continues to own the housing stock, co-operatives are not expected to repay the capital cost, although it is intended to eventually recoup the initial operating subsidies provided to each co-operative in the 3-5 year establishment period while the housing stock is being acquired.

**46.** Leasing co-operatives resemble Britain's management co-operatives. Victoria is the only State in Australia with them. Since the success of the Fitzroy Collingwood pilot project, a further 14 rental co-operatives have been established with another 3-5 planned in the next financial year. After only three years of operation, Victorian leasing co-operatives have purchased almost 300 houses on the open market. Fitzroy Collingwood Rental Housing Association has been financially self-sufficient for three years and is expected to return its first surplus to the Ministry in the 1983/84

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### Common Equity Rental Co-operatives

47. These are the more standard form of non-equity, housing co-operative found overseas. In a common equity rental co-operative, the houses are owned on a group basis, rather than leased. Common equity rental co-operatives have proliferated where the governments have adjusted the financing system to ensure that capital is readily available from the private finance sector. Since legislation was brought down in Canada in 1973 to provide access to private sector finance for common equity co-operatives, 900 co-operatives have been established, housing some 33,000 people. In Australia, the only common equity co-operatives established so far are in South Australia. These are small in number and rely on the South Australia Housing Trust acting as a "broker" to organise private finance for a co-operative group.

48. In Victoria, the Ministry of Housing is investigating the implementation of common equity rental co-operatives based on the Canadian model, utilising funds from the Federal Government's proposed Community Housing Expansion Program (CHEP) to subsidise finance borrowed through the private sector. Under CHEP, funds are to be provided to community-based groups so they can collectively manage or own their housing where:

- They can attract private sector finance;
- There is a high level of tenant involvement in the management of a group's housing.
- Preliminary investigation by the Victorian Ministry has demonstrated that the level of subsidy per co-operative need not be high, so it may be possible to establish this model of co-operative even if CHEP funds are not available.

49. Features of the Canadian model of common equity rental co-operative, which it is intended to duplicate, under CHEP are:

- Tenant members collectively own their housing. Shares are nominal in value;
- Co-operatives are small in scale, i.e. maximum of 20 households;
- The co-operative has no employee or office, keeping administrative costs to a minimum;
- Capital is borrowed from the private sector backed by a government guarantee and interest subsidy;
- Co-operatives have a social mix of middle and low income members;
- Management training of co-operative members and the carrying out of specialist functions (e.g. purchasing/architectural services) are contracted out to resourcing groups or outside consultants.

# Co-operatives in Practice

**50.** In this section, a number of key practical issues relating to the structure and operation of co-operatives are identified and discussed. These include the rationale for the present variety of Acts under which co-operatives and similarly structured organisations may be incorporated and any opportunities which may exist for this situation to be simplified. The number of directors which a co-operative may have is an important issue, especially for worker co-operatives, and this issue is explored. The role of share capital and the rights of shareholders is also a vital issue as is the question of equity for co-operatives. Again these issues have significant implications for worker co-operatives. The requirement that a co-operative properly manage the accumulation of any surplus is a central issue with significance for the rights of members, workers, and capital, as are the appropriate provisions for winding-up a co-operative. The emphasis in the section is on identifying the issues and provoking discussion.

## Types of Co-operative

**51.** Under the Co-operation Act 1981, there are five types of primary co-operative (trading, producer, community advancement, community settlement and credit) and two types of secondary co-operatives (associations and federations). In addition to these, there are other types of society based on co-operative principles in Victoria: co-operative companies incorporated before 1953 under the Companies (Victoria) Code or its predecessors which elected not to transfer to the Co-operation Act when it was first enacted; co-operative societies incorporated under the Industrial and Provident Societies Act; co-operative housing societies incorporated under the Co-operative Housing Societies Act; and building societies registered under the Building Societies Act which have a co-operative capital structure.

**52.** The Housing Act has also established a new type of rental housing co-operative for use principally by Ministry of Housing tenants, as a means of furthering the Government's housing policy of encouraging tenant participation in management. Regulations, model rules, return forms and accounting procedures have been developed. It is also being proposed that common-equity housing co-operatives will be established. In these co-operatives tenant members will collectively own their housing, shares will be nominal in value and capital will be borrowed from the private sector backed by a government guarantee and interest subsidy.

**53.** The Aboriginal Land Claims Bill, presently before Parliament, requires claimant groups to incorporate before they take a transfer. The method of incorporation is left open, but the one perhaps most suited to the Aboriginal culture is the co-operative society. There are already in existence co-operative societies of various types whose members are Aboriginal. The

question of having a new type of society especially for Aborigines has been raised. This could be even more specialised as a co-operative for holding and managing land for the purposes of the Aboriginal Land Claims Bill.

**54.** There are some 30 societies registered under the Industrial and Provident Societies Act. That Act is deficient in that the Registrar cannot conduct inspections or investigations unless requested to do so by the members. Furthermore, they are required to lodge their returns with the Corporate Affairs Office and not the Ministry of Housing. It would appear appropriate for those industrial and provident societies which are co-operative in nature, to transfer to the Co-operation Act, and for those which are not co-operative to be transferred to the Companies (Victoria) Code. The Industrial and Provident Societies Act could then be repealed.

**55.** Given the wide range of co-operatives which may exist, the Legislative Review Committee has suggested in its Discussion Paper that "it may be more appropriate for the distinctions between different types to be removed, thereby allowing for an infinite variety of societies. They would be regulated by the principles applying to all societies".

**56.** Unfortunately, few of the subsequent submissions received addressed the desirability or otherwise of retaining or removing distinctions between different types of co-operatives. The Australian Society of Accountants and the Institute of Chartered Accountants in Australia, however, has supported the removal of distinctions. The Premier, the Hon. J. Cain, M.P., has suggested consideration of future and further areas of co-operative activity and, therefore, different kinds of co-operatives, e.g. urban based co-operatives. The Co-operative Federation of Victoria has expressed reservations about the true co-operative nature of leasing, rental housing co-operatives as they are presently confined to Ministry tenants and Government stock.

**57.** The Legislative Review Committee has discussed the complexities for housing co-operatives generated when there is a need to conform both to co-operative principles and Government policies:

"The proposal would conform to the co-operative principles and the Act as it stands if surplus was applied to developing the co-operative business, providing common services, or distributed among the members in proportion to their transactions with the society. 'Transactions' would need to be interpreted broadly to include contributions in the form of labour or materials. These could be rewarded by agreed salaries or by issue of bonus shares. Each member would still have only one vote but could start with only one share he/she could sell for their par value when leaving the society. Consideration would have to be given to questions of capital gain, payment of dividends, and inheritance. There would need to be special model rules".

**58.** The Legislative Review Committee has also discussed the possibility and desirability of two new types of industrial co-operative "those comprising workers alone, and those comprising workers and the surrounding community such as spouses, customers, and other persons with a common interest". The Committee noted that there were three specific issues arising from these new co-operatives:



- The attitude of the trade union movement on such questions as union membership, award wages, and employer-employee relations.
- The encouragement of these co-operatives by Government funding.
- The need to amend the Act to remove the restriction on the number of employees who may be on the board.

**59.** The Co-operative Federation of Victoria supports the development of industrial co-operatives which are either worker or community-based and has argued that for these co-operatives there should be no restriction on the number of worker directors. The distinction between these forms of industrial co-operatives does need to be carefully reviewed. It could be argued that the admittance of non-worker members to a worker co-operative is a negation of the co-operative principles, that it would be difficult to identify and establish mutuality between workers and non-workers, and that membership should be restricted to workers.

**60.** There are a wide range of applications for the co-operative structure, and the relevance of co-operative principles to many areas of community activity is clear. It is possible however that the variety of Acts under which co-operatives may be constituted, coupled with the restrictions as to type which may exist under the Co-operation Act produce an unnecessarily complex arrangement which hinders the application of the co-operative model. The removal of distinctions would have the advantages of eliminating legislative complexities between societies, enabling the development of new forms of co-operative activity with minimal legislative inconvenience, standardising the legislative requirements for all co-operatives and providing a common basis of co-operative philosophy and principles. The disadvantages, however, could include an overriding legislative emphasis on a generalised consensus co-operative philosophy and principles which could override the significant differences and requirements of the various types of societies. This could also complicate regulative requirements, which would have the advantages and disadvantages of wide discretionary powers. Another approach would be to develop a different basis of distinction between co-operatives — eg. worker, consumer, marketing and producer co-operatives.

### **Membership**

**61.** Generally individuals over the age of 15 can be members of a co-operative, if they qualify and sign an application for membership, and are admitted in accordance with its rules. Credit society rules, however, limit membership to persons having a common bond of occupation, community, or ethnic background. Co-operatives may become members of other co-operatives except credit societies, subject to the rules providing for this. Co-operatives can deposit funds with credit societies but not become members.

**62.** The VCCA has submitted that the common bond is the critical factor in establishing a special relationship between societies and members. It has emphasised that the bond of interest must be realistic and easily identifiable. The Education Credit Union has also submitted that the

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common bond is the foundation of a credit union's success as an alternative financial and advisory institution; that common bonds must be preserved and strengthened; and that contrived bonds should be dismantled and prevented.

**63.** The VCCA and the Southern Credit Co-operative Association Limited have argued that provision should be made for corporate entities to be eligible for membership of credit societies. According to the VCCA, this would enable credit societies "to offer full services to their communities, including borrowing by corporate-entity members". The Education Credit Union, however, opposes corporate membership but supports the acceptance of deposits from corporate-entities (e.g. School Councils) and, in appropriate cases, lending to them (e.g. a community advancement society formed through a school council).

**64.** The principle of open membership can in practice be restricted by the rules of co-operatives. Aboriginal co-operatives, for instance, restrict membership to Aboriginals and Torres Strait Islanders. In assessing the principle of open membership, therefore, it is necessary to relate this to the common bond. Occupational, ethnic and community common bonds are accepted as legitimate restrictions on membership in order to avoid direct competition between credit societies. One might speculate about the implications of a common bond based on sexual, political or other, perhaps discriminatory, qualifications. With political qualifications, for example it is necessary to consider whether or not this conflicts with the political neutrality of co-operatives.

**65.** The 1963 Report of the I.C.A. Commission on Co-operative Principles argued that the growth and success of co-operatives greatly depended on internal harmony "which might easily turn to discord, as earlier experiments had shown, through the admission of bad characters, irresponsible individualists or trouble-makers. Nothing is to be gained and much may well be lost by bringing in a person who unsettles the cohesion of the membership". The report is also opposed to excluding individuals from membership for ideological reasons and contends that these are not relevant to the economic and social purposes of co-operatives. But, then, ideology could be the basis for a common bond and the organisation of work and workplaces and, therefore, the internal harmony and cohesion of the membership.

### Directors

**66.** The present Act restricts the number of directors of a society to not fewer than three and not more than seven. Democratic management and involvement of members in management means that some societies would like to have quite large boards of directors. There is no upper limit for companies or building societies. The Legislative Review Committee proposed that the upper limit be abolished. Somewhat differently, the VCCA has argued that credit societies should be required to have a minimum of five directors at any time and that the number of directors be determined by the number and diversity of activities. The Act also allows for only one employee director. The Legislative Review Committee and a number of submission have proposed that the development of worker

owned and controlled co-operatives would involve removing this restriction for these co-operatives. Under the Housing Act 1983 rental housing co-operatives establish committees of management rather than boards of directors. Even a committee of management may be inappropriate for small co-operatives and it may be more appropriate to allow these to operate without either a board of directors or a committee of management.

**67.** Moves to increase democratic control might, it is argued, reduce efficiency. Limiting the size of the Board may enable members to make prompt, but not necessarily effective decisions. The Credit Societies Guarantee Fund Advisory Committee has submitted that a permissible number of directors beyond seven would constitute an unworkable number for credit societies. The Co-operative Federation of Victoria Ltd. has recommended that the Co-operation Act come into line with the Companies (Victoria) Code and the Building Societies Act requiring the number of directors to be not less than three.

**68.** As to the issue of employees/workers as directors, the Co-operative Federation of Victoria has proposed that the restriction of one employee on the Board remain for all but a new type of society — industrial co-operatives. The industrial co-operatives would have no restrictions on the number of workers who could be elected as directors. Under the proposal, co-operatives who wished to introduce industrial democracy could be incorporated as an industrial co-operative. The proposal assumes that distinctions between types of co-operatives will remain. However as noted earlier, there may be difficulties where worker co-operatives include non-worker members.

**69.** The Australian Society of Accountants and The Institute of Chartered Accountants in Australia, however, support the restriction on employee directors. "It is essential for a successful Society to carefully balance the interests of the members, the staff, customers and suppliers with those of the Society itself. The interests of the Staff are not always those of the Society and there would appear to be merit in maintaining a limit on the number of employees who may be on the Board". John M. Galvin and Associates has submitted that even one employee director is "inconsistent with general thinking" and argues that the "separation of board and professional staff has been largely maintained throughout the credit union world as a matter of wisdom and caution".

### **Shareholding**

**70.** A fundamental co-operative principle is membership democracy (one person/one vote) irrespective of the member's shareholding. Associations and federations, however, have different classes of shares and members can be allocated up to five votes. The Legislative Review Committee did not comment and no submissions addressed this issue. The Legislative Review Committee did argue, however, that because co-operative members received no capital appreciation on their shares, this could be seen as inequitable for those who took up their shares a long time ago when the asset value of the society had since greatly increased, and the real value of shares decreased, due to the effect of inflation. It is unlikely, however, that

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this argument can be sustained, insofar as there is a limited return on capital, and a member's shareholding would only provide access to the co-operative's assets upon its liquidation.

**71.** In 1979, the New South Wales Co-operation Act was amended to provide that where assets in a society had been sold at a profit or revalued at a greater value, the society could issue bonus shares to its members subject to certain constraints. This amendment has been endorsed by the Australian Society of Accountants and the Institute of Chartered Accountants in Australia. As noted by the Legislative Review Committee, however, this proposal needs to be considered in conjunction with co-operative philosophy and principles.

**72.** The Co-operative Federation of Victoria Ltd. has submitted that there are three problems with grossly undervalued shares: making the co-operative an attractive take-over proposition; penalising retiring members whose realised share value is less than their proportionate equity in the assets; and, providing an unfair advantage to incoming members who obtain cheap entitlement to the wealth generated by assets in whose creation they have carried no risk.

**73.** The VCCA and the Education Credit Union have submitted that credit societies should have a class of shares which may attract dividends at the end of each trading year but would not confer additional voting or membership rights. The VCCA has proposed that these shares would rank ahead of the present nominal shares in the event of winding-up a credit society and would be similar to the preference shares issued by public companies. The VCCA believes that the proposal offers the possibility of raising a permanent share capital base for credit societies without violating the basic co-operative principle of one member one vote. The Southern Credit Co-operative Association Limited has, however, submitted that at present it is not in favor of different classes of shares.

### Equity

**74.** Equity is the ownership of the capital of a co-operative as represented by its shareholding. The Co-operation Act 1981 does not specify any equity requirements, i.e. the minimum value and number of shares. Under the Act an individual can hold up to 20% of the allocated shares.

**75.** In evaluating the Ministry of Employment and Training's (MEAT) Co-operative Development Program, Cruickshank Management Resources Pty. Ltd. argued that limited equity and an inadequate capital base were frequent problems for co-operatives, and that the willingness/ability to increase membership equity will determine the potential for overcoming this problem. Cruickshank argued that the question of equity was the key to the distinction between co-operatives and conventional business, and that this distinction lay in the membership control and ownership and the resulting differences in decision-making style.

**76.** The arguments for maximising equity requirements are historical (self-help and independent tradition) and ideological (protecting the autonomy of co-operatives). The arguments for minimising equity are also historical (traditional nominal value and open membership) and ideological

(an emphasis on personal rather than property rights). This issue clearly has great significance for the co-operative movement.

**77.** The conception of, and assumptions about, what constitutes an appropriate equity level depend on definitions and perceptions and the type of co-operative and what it is trying to do. A consumer co-operative may, for instance, have a high collective equity and a low individual equity because of the large membership. But for a worker co-operative to raise an equivalent collective equity it may need a high individual equity because of its small membership. Because equity requirements depend on the type of co-operative, high individual equity requirements could introduce a disproportionate role for member capital, and this could negate the basis of co-operative philosophy and principles. As noted above, a proposal for collective rather than individual-based equity has been developed for a new form of housing co-operative. It follows, that the higher individual equity requirements for worker co-operatives provides another basis for developing collective equity.

### **Surplus Distribution**

**78.** The Co-operation Act 1981 restricts the payment of a dividend on capital to shareholders to an amount not exceeding 5% in excess of the maximum annual rate of interest offered during the society's financial year by the Commonwealth Bank on fixed deposits for two years.

The co-operative movement is divided on whether or not any interest should be paid on share capital and, therefore, co-operative practice varies in the following ways:

- No interest is paid on capital.
- Limited interest is paid at below the market rate.
- Interest is limited only for specific periods and/or is raised or lowered based on a formula as it relates to the market rate.

Under the Housing Act 1983, however, it is provided that no dividends are to be paid to members of rental housing co-operatives on any shares held by members.

**79.** A recent amendment to the Co-operation Act provides that reserves should be increased to a level of 2.5 per cent of liabilities at a rate of .5 per cent per year, provided that a level of reserves equal to 1% of liabilities is achieved by the end of the first full financial year following the proclamation of the amendment.

**80.** Important considerations in the question of the distribution of surplus are the relationship between equity provisions, government assistance and the generation of a surplus. It could be argued, for instance, that if the viability of a co-operative was dependent on government funding, then, it would be inappropriate for the members to benefit from any surplus distribution.

**81.** The surplus may also be utilised for other co-operative purposes such as education. The Co-operative Federation of Victoria Ltd. has noted that

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no legislative provision exists to require compliance with the principles of co-operative education and co-operation between co-operatives. The model rules however may provide for an amount not exceeding 10% to be applied to any charitable purpose of promoting co-operation or any community benefit. The Federation has recommended that co-operatives be required to allocate 0.5% of surplus to an Education Fund to be collected by the Registrar and administered by the Federation in covering costs of regular professional education and training programmes for all levels of staff for directors and members. In France 15%, Italy 20% and Spain 15% of the surplus goes into the reserve fund. In Spain 10% of the surplus is allocated to a fund for education and charitable purposes. In France at least 25% of the net profits must be allocated to the workforce, whether members or not, to be divided in proportion to their salary or hours. In N.S.W. the common ownership companies are required to place 30% of surplus into reserve funds.

**82.** It is necessary to consider how specific the legislation should be with respect to the distribution of surplus. With the exception of the allocation for reserve funds, co-operatives are at present free to decide for themselves how the surplus should be distributed.

### Winding-Up

**83.** The Co-operation Act 1981 provides that in the event of a winding-up a co-operative meets its debt obligations and the residue is distributed as provided for in the rules of the co-operative. Residual assets, then, can be distributed to members. There is a view that any surplus from a winding-up should be distributed to the co-operative's members whose labour or patronage has been responsible for the success of the co-operative. This argument seems especially appropriate for the worker co-operatives. It could be argued that a co-operative is not created for the purpose of increasing the individual wealth of shareholders and that the possibility of a surplus distribution in the event of a winding-up contradicts the co-operative philosophy of restricting the role of capital. It could be argued, in response, that this constitutes a misunderstanding of the principles of co-operation, and that an excessive surplus should not accumulate; but that at any rate an undistributed surplus is conceptually quite distinct from shareholdings. Finally, it must be conceded that a co-operative is a privately — if collectively — owned enterprise, and consequently is the property of its members who have a right to the proceeds of its disposal.

**84.** In 1966 the International Co-operative Alliance discussed whether any kind of distribution of the residual assets of a co-operative to members on winding up should be regarded as contrary to co-operative principles. ICOM co-operatives in the UK are prohibited from distributing residual assets on winding up to members. Under the UK's Industrial and Provident Societies Act, however, residual assets are distributed to shareholders. In France, Italy and Belgium residual assets cannot be distributed to shareholders in proportion to shareholdings.

**85.** There are two critical influences which are relevant to the distribution of a winding-up surplus to members — membership equity and government

funding. It is noted elsewhere that member equity is relevant to the winding-up provisions, and that whether the equity is high or low could determine whether or not any surplus is distributed to members. It also may be argued that if the viability of a co-operative is dependent on government funding, it would be inappropriate for the members to benefit from any surplus distribution.

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## Co-operative Development

**86.** The development of the co-operative movement requires the provision of a number of support services. An integrated and ongoing system of education in co-operative principles and practices is required. In the short-term this should build upon existing education facilities. Financial support is also required, and the possibility of establishing a central finance facility for the co-operative movement must be fully explored. At some future stage it may be appropriate for a licence to be sought for a 'Co-operative Bank'. The provision of financial assistance by government agencies clearly has a role where co-operative initiatives need support during their establishment phase or where they are meeting social and economic objectives which are of importance to the community but are not financially self-supporting. The provision of such assistance should be non-discriminatory. The prime responsibility for the development of the co-operative movement should lie with the movement itself and the systems which are implemented should reflect and reinforce this principle.

**87.** Specific education, business and financial assistance mechanisms are critical to the development of the co-operative sector and movement. The three countries in which co-operatives are the strongest — France, Italy and Spain — have strong and developed co-operative support agencies. Furthermore, these agencies have been created by the co-operatives and are operated on co-operative principles.

**88.** In developing technical and financial assistance for co-operatives there are a number of critical considerations and choices:

- The importance of any assistance system being co-operatively based and controlled;
- The organisational relationship between technical and financial assistance.
- Whether assistance will benefit co-operatives of all types, ages and sizes;
- Whether assistance will be applicable to all co-operatives or only those in certain industry/trading sectors;
- The appropriate organisational basis of assistance e.g. a central Co-operative Development Agency or associations of co-operatives;
- Determining the extent to which assistance should be comprehensive or selective;
- The initial and continuing role of the Government;
- The role of trade unions in establishing and developing assistance systems;
- Ensuring that particular sectors of the co-operative movement do not exercise a disproportionate influence;



- Protecting the interests of the under-developed co-operative sectors; and
- Ensuring appropriate utilisation of existing institutions.

**89.** In the UK co-operative development is undertaken by various groups. There is a Co-operative Development Agency (CDA) established under its own Act of Parliament. The CDA is responsible primarily for promotion and rationalisation of the co-operative movement. It is currently concentrating its resources on worker/industrial co-operatives because it believes they are most in need of government assistance. The board of the CDA comprises the head of a major co-operative society, the chief executive of the Co-operative Bank, the head of a major consumer co-operative association, a trade union representative, the managing director of a private sector company (Kalamazoo) and a civil servant. In addition to the CDA there are a large number of government, semi-government, private and co-operative organisations promoting the development of co-operatives. These include Industrial Common Ownership, Job Ownership Pty Ltd, the Greater London Enterprise Board, the London Co-operative Enterprise Board and approximately 80 local co-operative development agencies.

**90.** In Spain co-operatives receive financial subsidies for each new job created and a special class of 'protected' co-operative is exempt from corporation tax for 10 years after registration and then pays the tax at only half the normal rate. Legislation in France since 1931 has provided that where tenders are called for in public, contract preference must be given, price being equal, to worker co-operatives. Since 1978 local government in France has been permitted to provide grants to worker co-operatives and guarantee loans from banks. In Italy co-operatives may get contracts without having to tender.

**91.** Interest in worker, food and lifestyle co-operatives has increased because continued high levels of unemployment are putting pressure on Governments to create effective programs for the unemployed. Worker co-operatives in particular are regarded as an effective mechanism for maintaining and creating jobs. Co-operative development, however, should not be confused with other job creation initiatives which are characteristically based on short-term employment for the particularly disadvantaged, and on community benefit; do not encourage long-term employment; lack economic viability; and operate without education, business and financial support agencies. The drive for co-operative development should come from the co-operative movement itself, rather than institutions who lack commitment to co-operative philosophy and practice. Indiscriminate enterprise programmes which do not distinguish between co-operatives, community business ventures and municipal enterprises should be avoided. The objectives, organisational structures and work modes of these approaches are qualitatively different.

**92.** The consequences of these qualitative differences would appear to be a need for distinct and separate support systems. The appropriate basis for developing co-operatives may be co-operative-based education, business and financial support, and not generalised services which assist hybrid enterprises. Co-operatives should not be mistaken as a variant of other forms of business enterprise. Policies and programs based on this

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assumption might reduce the democracy of co-operatives and introduce inappropriate economic and organisational imperatives and criteria more relevant to other business enterprises.

**93.** The argument that government assistance should be provided to co-operatives is based on the assessment that positive and cost-effective economic, employment and social results will be produced by an assisted co-operative sector. Special assistance on the co-operative sector could also be targeted on specified types of co-operatives (e.g., worker, conversion and housing co-operatives). The arguments against special assistance, however, are based on the problem of selectively choosing co-operatives and excluding other forms of business; the possible resulting distortions on the economy; and whether the basis of the support is economic rather than sentimental and based on the real and potential achievements of co-operatives. Selectivity within the co-operative sector could further provoke opposition from the non-assisted co-operative sector. It would also be necessary to consider how assistance could affect member/worker control of co-operatives.

**94.** In Australia, governments are specifically and directly assisting housing and worker co-operatives under programmes not available to other forms of co-operation. In April 1984 the Victorian Government announced that its 10 year economic strategy included continued support for, "the establishment of workers co-operatives subject to their capacity to achieve economic viability, their commitment to co-operative principles and industrial democracy, and meeting award wages and conditions". N.S.W. has already established a Common Ownership Finance Company and a Common Ownership Development Agency (CODA) for worker co-operatives. The Victorian Government has commenced a study into the financing needs of all co-operatives. CODA has advocated that worker co-operatives should be assisted by specific worker co-operative financial and technical assistance agencies. The argument is supported by the Labor Resource Centre/Trans National Co-operative study of worker co-operatives in Victoria and NSW. Assistance to housing co-operatives is justified by arguing that it ensures they are accessible to low income people and equalises subsidies already available to home owners.

### **Education in Co-operation**

**95.** Education in the co-operative principles is basic to co-operation and the ability of the movement to successfully apply the co-operative philosophy in practice. Without appropriate education, members, directors, and workers will not be able to effectively discharge their responsibilities as co-operators. Appropriate co-operative education and training can be critical in determining whether or not a co-operative will survive. The Legislative Review Committee's Discussion Paper argued that there could be a distinct role for the Government in promoting the co-operative movement in Victoria — possibly in conjunction with the Co-operative Federation of Victoria. In response the Federation has emphasised the possibility of education on co-operative philosophy and practice through Federation organised programs. The Federation has also proposed that

where a lack of knowledge is apparent in a new potential co-operative then the group could be required to obtain an understanding of co-operative philosophy and practice through Federation organised programmes. This would be subject to the objects and intentions of the group being co-operative in character. As noted earlier, the Federation has recommended that co-operatives be required to allocate 0.5% of surplus for co-operative education organised by the Federation.

**96.** Race Mathews has stressed the importance of appropriate educational arrangements for co-operatives and has specifically suggested that the Trade Union Training Authority should be encouraged to provide introductory units on worker co-operatives and that the Federal Government should partner the Co-operative Federation of Australia and its State affiliates in the establishment of an Australian Co-operative College. There is a strong case that the principles & practices of co-operation should be taught as part of the normal school curriculum as in done in many other countries (notably France.)

**97.** MEAT's Co-operative Development Program is developing an extensive and comprehensive education program for its co-operatives through the TAFE system. Preston TAFE is developing two courses — Co-operative Intenders and Co-operative New Enterprise courses. Conversion co-operative workshops are also being completed. Because of scarce resources, it may be best to utilise the existing education system rather than create an independent, but resource starved co-operative education system. The possibility of utilising the resources of TUTA need to be examined as the most effective mechanism for educating co-operatives about unions and unionism and informing trade unions about co-operation and co-operatives.

**98.** Education could also be carried out through specially set up resourcing or secondary co-operatives. This is the traditional method of providing management training for members of rental housing co-operatives in the U.K., Canada and Scandinavia. These can be either worker co-operatives, or accountable to a number of primary, rental housing co-operatives.

### **The Role of a Co-operative Development Agency**

**99.** In separate submissions to MEAT, Brian Greer, Paul Martin and David Whitchurch have advocated the establishment of an independent Co-operative Development Agency. Cruickshank Management Resources Pty. Ltd. has advocated the adoption of NSW's Common Ownership Development Agency. Race Mathews has also argued for the critical importance of central and localised co-operative development agencies.

**100.** In general, the envisaged role of a CDA would be to co-ordinate the different types of co-operative and government activities and advise the Minister and the Registrar on the development of the movement generally in Victoria. Whitchurch has argued that a CDA should assist all co-operatives but with an emphasis on worker co-operatives. He has proposed that the CDA should be managed by representatives of co-operatives and other interested organisations including trade unions, employers and

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Government. In also advocating for a CDA, Greer has argued that the critical questions concern: the type(s) of co-operative encouraged; the service(s) or forms of support provided; the structure and management; the resourcing requirements of the Agency.

**101.** The Registrar of Co-operatives studied the role of central agencies on a recent overseas trip and has formed the tentative view that there is a role for a Victorian Co-operative Council which would rationalise the Government administration of co-operatives in Victoria. This is presently spread amongst DMB (friendly societies), Law, (co-operative companies registered under the Companies Code), Employment and Training (the Employment Co-operative Development Program) and Housing (building societies, credit co-operatives, general co-operatives, industrial and provident societies, co-operative housing societies, and rental housing co-operatives).

**102.** Such a Council would require strong movement involvement, with at least half of its board members coming from the co-operative movement. Other interests which could be represented include local government, small business, the trade union movement, and the Registrar. Its role could be co-ordination of the different types of co-operative and government activity, government and private funding, research, education, advice to the Minister and Registrar, and the development of the movement generally in Victoria. The Government's regulatory role would probably have to remain with the Registrar. The role of such a Council would have to be considered in relation to the various existing advisory committees. It could supersede some or all of them. This could provide a model for other States, and the various States could then combine with the Commonwealth and national co-operative organisations to establish a National Co-operative Council. In developing this type of agency, it would clearly be necessary to avoid the pitfall experienced in various Third World countries of creating a "top down" organisation which stifles the co-operative movement. It is of the essence of co-operative philosophy that power lies with the members of individual co-operatives. This must be balanced, however, with the further co-operative principle of co-operative organisations co-operating with each other at the local, national and international levels. Nevertheless, there is a major role for the co-operative movement to play, and it may need Government assistance and encouragement to further develop its role in the Australian society and economy.

**103.** Many of the development initiatives proposed by Canada's National Task Force on Co-operative Development call for federal government support and involvement. Those in the four priority development areas of worker-owned enterprises, health services, fisheries, and housing are predicted on federal participation. The Task Force is concerned that the kind of co-ordination required between the federal government and the co-operative system will necessitate a central mechanism for co-operative responsibilities within the federal government. The effectiveness of federal involvement in co-operative initiatives will depend on having an appropriate government mechanism for working with the co-operative system and developing the initiatives with the relevant groups within government. The current state of affairs, with co-operative responsibilities spread among

many departments, requires co-operatives to co-ordinate their own initiatives among all the government groups involved — a process that is both difficult and costly.

**104.** The Task Force recommended that in order to simplify and strengthen co-operative relations with government, the federal government should create a co-operative affairs mechanism within government which could assist co-operatives in areas of federal jurisdiction. It proposed that this mechanism should be policy oriented leaving operational issues to the specific line departments. Specifically, it could:

- Advise the departments in policy matters affecting co-operatives;
- Advocate and provide support for co-operative initiatives within government but would not interpose itself between co-operatives and other departments they deal with;
- Arrange funding for joint co-operative/government initiatives but would not generally develop programs independent of the co-operative system;
- Conduct co-operative education seminars for bureaucrats in various departments to familiarise them with the unique characteristics of co-operative enterprises.

The Task Force also recommended that the federal government should consider a Minister of State for Co-operatives — with a small supporting secretariat — as a way of accomplishing these responsibilities.

**105.** The establishment of a centralised co-operative agency would facilitate the orderly development of co-operatives. This would assume, however, that the best organisational structure for the development of co-operatives is on a centralised basis. There are other significant organisational assumptions and questions involved in the establishment and development of a Central Agency/Authority. Canada's National Task Force on Co-operative Development has argued that co-operatives must arise out of grass-roots initiatives and that this necessity even limited the role of established co-operatives in aiding new co-operative development. Certainly, it would be necessary to ensure that a centralised Council or Agency did not pre-empt grass-roots initiatives and imposed a top-down orderly development. While the Agency could deliberately adopt a low key facilitative role, it may be difficult to maintain this role in practice. Before such a body is established it would also be necessary to ensure that the co-operative movement had the capacity to control and support its operations and development. If this is not at present feasible, then, the establishment of an Agency could be premature.

**106.** Associations or federations of co-operatives may, however, be a more appropriate mechanism for meeting the development needs of co-operatives. The Government does not wish to increase the number of statutory authorities, the long-term dependence by statutory authorities on government funding, and the possible inconsistency of this approach with the independent developmental needs of co-operatives. The Co-operation Act, moreover, already allows for the establishment of associations of co-operatives which could provide this developmental function. On the other hand such an initiative has not yet emerged.

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**107.** It could be more appropriate, then, for the Government to initially facilitate the formation of federations or associations to carry out the development role. There is already an association of credit co-operatives — the Victorian Credit Co-operatives Association. In this way the grass-roots base of the movement could be developed to the extent that it was capable of controlling and supporting an Agency or Council. An alternative and/or complementary approach would be the establishment and development of local and/or regional co-operative development agencies. Of course, the development of co-operative associations would not necessarily promote an orderly development and could lead to resource dissipation.

**108.** In the event that it is judged premature to establish an Agency/Authority, it would be advisable for the Ministerial Advisory Committee on Cooperation to continue to provide advice to the Minister, until such time as a State-wide Council could be established.

**109.** In developing co-operative agencies or associations, it is necessary to recognise their inevitable resource limitations and the necessity and desirability of effectively using existing resources, e.g. TAFE colleges CAEs, and universities. Experimental development work in Victoria has already been undertaken with the Centre for Small Business at Preston TAFE and the School of Business at Ballarat CAE.

### **Financing Co-operative Development**

**110.** The Financial Institutions Review is considering the possible role of a co-operative bank to provide financial services to members of the co-operative movement. The bank's operation would parallel those of traditional trading banks and would provide a vehicle through which the financial resource of the co-operative movement were mobilised to help it achieve its objectives. Unlike a private bank which adheres ultimately to notions of economic efficiency and profitability, the co-operative bank would employ the most sophisticated financial management and techniques while retaining a commitment to the co-operative philosophy and principles. Its operation would enable the wealth of the co-operatives to remain within the co-operative sector, and would operate as the central financial facility of the co-operative movement. It would be formed by co-operatives and operated by their representatives in the interests of the co-operative movement.

**111.** At the outset the co-operative bank should operate as a wholesale bank providing specialist financial services to members of the co-operative movement. The co-operative bank would operate on a centralised basis initially at state and national, and then at international levels (through linkages with overseas co-operative banks). The provision of retail financial services would remain the responsibility of financial co-operatives.

**112.** Although it must observe prudent commercial practice the bank should seek through its activities to promote the principles of co-operation. The observance of these principles in its policies and practice would distinguish the co-operative bank from private and government financial institutions. Most importantly, it would provide an orientation which makes the co-operative movement in general, and the co-operative bank in particular, a suitable medium for the provision of government assistance to

disadvantaged individuals and groups within the broader community. Ultimately the task of the co-operative bank would be to apply the most rigorous and sophisticated techniques of banking and financial management to the management of its affairs for the benefit of the co-operative movement and the community at large.

**113.** The economic viability of a co-operative bank would be determined by a number of factors, including the level of support provided by credit co-operatives, trading and producers co-operatives. This support in turn will reflect a number of considerations, including:

- The desire of these co-operatives to retain links with their existing bankers.
- Their desire to support the concept of a co-operative bank.
- Their preparedness to enter into a co-operative arrangement where there was previously a strong element of competition.
- Their commitment to present and projected industry specific financial facilities: eg. the credit co-operatives proposed "National Financial Facility".
- Above all, the ability of a co-operative bank to provide a wide range of services at competition rates.

**114.** To be established on a State-wide basis the bank would need an initial paid-up capital in excess of \$10 million. To this must be added borrowings, on the basis of a debt/equity ratio of eight to one (twice the reported gearing of the Australian Bank) representing an investment of some \$70 million. Government funds for workers co-operatives in particular could be required as the co-operative bank could be understandably cautious in high risk investment into an improved emerging co-operative sector. Subsidies to rental housing co-operatives could be put through the bank.

#### **The Client-base of the Co-operative Bank**

**115.** It is possible to divide the co-operative sector into distinct categories for the purposes of exploring the potential contribution of a co-operative bank. These categories are as follows:

##### **(a) Producer and Trading Co-operatives —**

- Some of these types of co-operatives are very large and may each dominate their respective industries.
- They operate in primary production and processing and in trading and marketing fields.
- They trade on a national and international basis and are heavy users of financial services, predominantly private and government banks.
- The nature of their industries generate demands for specialised support.

##### **(b) Financial Co-operatives**

- Building societies and credit co-operatives are the major non-bank, deposit-taking intermediaries. In Victoria they have assets in excess

- Many of the existing worker/conversion co-operatives are in receipt of Government funding.
- Those co-operatives differ from other trading and manufacturing co-operatives in their commitment to industrial democracy.
- There is considerable scope, given sufficient venture capital, for the establishment and development, of an expanded and substantial worker/conversion co-operatives sector.

**(e) Community and Service Co-operatives**

- This category would include a very large number of co-operatives.
- The financial services demanded by such organisations would differ significantly from that required by housing co-operatives which consists essentially of the capacity to mobilise large amounts of capital.
- The smaller co-operatives in this category would probably develop a client relationship with a large financial co-operative which would in turn make use of the services offered by the co-operative bank. The larger societies might make direct use, however, of the bank.
- Many of these types of co-operatives would be in receipt of some Government funding and would be able to make use of normal financial facilities, such as deposit and cheque accounts, overdrafts, small to medium loans, financial and investment advice. If these facilities are not offered from within the co-operative movement, they would of necessity be sought outside it — with a consequent net loss of wealth to the movement.
- Finally it should be noted that in supporting this component of the co-operative movement, the co-operative bank and the financial co-operative would be giving tangible form to their commitment to several of the co-operative principles.
- Certainly this group will have developed few strong links to the traditional banking system, while the nature of its activities can be expected to generate a steady flow of funds through the finance co-operatives at comparatively low cost. Given access to cheque account facilities, this category is a natural client of finance co-operatives.

**116.** It would be advisable to base a co-operative bank on an existing operation (say, the V.C.C.A. or the credit co-operative movement's national financial facility) rather than commit a large amount of capital to meeting establishment costs. The bank could seek to provide financial services to government departments, statutory authorities, and community organisations with an involvement in fields which the co-operative bank is seeking to service. These might include housing, health, community welfare services, and education.

**117.** The co-operative bank may also be able to negotiate a central agency role for the distribution of social security transfer payments, including pensions and unemployment benefits. This could be managed



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t of capital to meeting  
e financial services to  
d community organis-  
erative bank is seeking  
, community welfare

to negotiate a central  
y transfer payments,  
his could be managed

through E.F.T.S. services to constituent financial co-operatives which could maintain beneficiaries' accounts and provide counselling and other financial services. Such an arrangement would serve to significantly develop the role of the co-operative bank and of the co-operative movement in general.

## Co-operatives and Government

**118.** The primary interests of government in the co-operative movement relate to its responsibilities to protect the interests of the public and of members by ensuring the stability and proper management of societies. Government may also be concerned to promote the principles and practices of co-operation where these correspond to its preferred social, political and economic objectives. In such cases it may also provide financial assistance to co-operatives, or seek their support in the delivery of assistance to groups within the community. Where such assistance is provided the government has a responsibility to ensure that effective use is made of its funds. This level of involvement of government raises issues about the nature of co-operatives as private organisations, and about the role in the modern world of the co-operative philosophy and principles.

**119.** The need for effective and efficient administration of co-operatives together with the need for a co-ordinated approach to their development suggests there is a role for a Victorian Co-operative Council or Development Agency. A separate Ministerial portfolio for co-operatives might also be established. In order to clearly identify co-operatives, and the principles upon which they are based there is a need for the inclusion within the Co-operation Act of the international co-operative principles. This would establish the basis for determining the character of an organisation as properly co-operative. It may be also that the basis and desirability of distinguishing between different types of co-operative within the Act should also be reviewed. In dealing with the relationship between government and the co-operative movement it is essential to respect the latter's status as a group of private organisations with specific rights and responsibilities.

**120.** There is an ambivalent relationship between Government and the co-operative sector and this ambivalence reflects ideological differences, role complexities and ambiguities and the development of the modern State. The discussion on co-operative practice has demonstrated that there are a number of critical issues concerning the structure and operations of co-operatives that are subject to debate and decision. There are two broad areas that MACC is considering: the legislative framework for and regulation of co-operative societies; and specific policies and programs for co-operative development and promotion including the role of co-operative support agencies.

**121.** The co-operative movement is divided on what constitutes an appropriate relationship with Government. While the majority view is that Government can assist rather than direct the co-operative movement, there are differences in interpretation. Historically the co-operative movement has been independent of Government and the origin of this independence was State hostility to the development of working class based co-operative and trade union movements. When the co-operative movement was developing

in the 19th Century the market economy dominated and the State only marginally intervened in its operations to assist capital. It was inconceivable that the State would assist the working class to develop their own economic institutions. In reaction to these historical circumstances, the developing co-operative movement emphasised self-help and independence from Government and member equity.

**122.** Co-operatives adopt an official position of political neutrality towards Governments and political parties. They tend to see overt political relationships as compromising and as jeopardising their integrity as co-operatives. The VCCA, for instance, has stressed the apolitical nature of co-operatives and the importance of not becoming aligned with partisan political interests. The Report of the I.C.A. Commission on Co-operative Principles has stressed the importance of political neutrality: "No one should be obliged to subscribe to any doctrinal declaration. This leaves the member entirely free to hold whatever belief or opinion he chooses and to adhere to any religion or political organisation which attracts his sympathy and loyalty." With the development of the labor movement, the election of Labor Governments and the emergence of socialist/communist nations, governments have reached various accommodations with co-operative sectors.

**123.** Self-help, independence from Government and member/worker equity need to be situated within their historically determined context and re-examined and redefined in the context of current and likely future circumstances. In discussing the relationship between co-operatives and Government the Legislative Review Committee noted that the Government was interested in:

- Protecting the interests of the public and society members by ensuring the stability of societies and monitoring them to prevent fraud and mismanagement.
- Promoting the principles of co-operation and recognising the essential nature of a co-operative society as a private organisation.
- Ensuring the effective usage of any Government expenditure or guarantee of funds.
- Increased Ministerial control over Government activities, greater efficiency in Government and a reduction in the number of statutory entities.

**124.** The VCCA has submitted that it is the Government's role to ensure that credit societies are complying with the provisions of the Co-operation Act, and to carry out whatever investigations and monitoring functions are necessary to ensure compliance. The VCCA has proposed that the Government has a role in fostering the development of the co-operative movement, but that it should not intrude into the policy making of societies outside the provisions of the Act, nor should it assist societies to trade out of their difficulties. The Education Credit Union, however, is concerned about the workability of self-regulation. The Ed Credit suggests that the credit union movement has not been able to achieve financial prudence in a number of instances and that some further regulation may be necessary.

The solution, therefore, is to strengthen the VCCA "with a statutory base" with the Registrar continuing to "oversee the operations of all co-operatives." The Australian Society of Accountants and The Institute of Chartered Accountants in Australia has submitted that co-operatives should control and administer their own affairs with the Government adopting a supporting and monitoring role. The Legislative Review Committee has suggested that consideration should be given to whether the Act should be amended to provide that the Registrar, like the Director of Housing, should be subject to the direction and control of the Minister.

**125.** The VCCA has proposed that a ministerial portfolio should be established for co-operatives with the Registrar reporting directly to the Minister. The Co-operative Federation of Victoria has submitted that more information is required before it could adequately comment on the Registrar being subject to the control and direction of the Minister. The Commercial Credit Co-operative has expressed concern about Government adopting an active rather than reactive role and the damage of unnecessary Government intrusion into the affairs of financial intermediaries.

**126.** The Legislative Review Committee has suggested that consideration should be given to whether the Co-operative Societies Advisory Council should be replaced, as in the case of the Housing Bill, by a power in the Minister to appoint or dismiss Ministerial advisory committees from time to time to advise him on such matters as he sees fit. "This would give the Minister greater flexibility than at present, and would permit him to appoint policy advisers from whatever source he saw fit, including Party members, ministerial advisers, public servants, co-operative sector representatives, or experts. Such a committee could be an improved source of policy advice to the Council. This is not to suggest in any way that there should not be the closest consultation at all times between the Government and the co-operative sector. Abolition of the Council would continue the process of streamlining the Ministry's management structure."

**127.** In response, the Co-operative Federation of Victoria has argued that an advisory committee should be separate from the Registry administrative machine, and should be a source of policy advice which is "kept above party political influence". The VCCA has agreed that the existing Co-operative Societies Advisory Council should be disbanded but that its powers should be allocated between the Co-operative Federation of Victoria and the Credit Societies' Guarantee Fund Advisory Committee as appropriate. The Commercial Credit Co-operative has submitted that advisory committees are needed to ensure the opportunity for the industry to advise the Minister and that credit societies should be more adequately represented.

**128.** There are a number of complicating and contradictory issues involved in these various proposals and it would perhaps be useful to isolate and identify these. There is a common theme of co-operative independence and government assistance but also an argument for achieving government policy. While proposing that the Government should not intrude into the policy making of societies outside the provisions of the Act, the VCCA also proposes that the Government has a role in fostering

the development of the co-operative movement. The Government adopting a fostering role that does not intrude into policy making may be difficult to achieve in practice.

**129.** It could be argued that it is appropriate for Government to support co-operative activities which are consistent with its own policies and priorities. This could entail selective rather than generalised assistance for co-operatives. There could be a number of factors which would encourage a government to support all or some co-operatives and these could include the compatibility of co-operative philosophy and practice with government policy. The Victorian Government, for instance, is committed to equal opportunity, industrial democracy, long-term employment maintenance and creation, and to assisting low income groups. The open membership philosophy of co-operatives, is also compatible with equal opportunity practices. Worker co-operatives are demonstrating an industrial democracy commitment and practice. Credit unions are decreasing the cost of credit to and increasing the amount of credit for workers. Companies which convert into worker co-operatives provide the possibility of protecting jobs in local economies. Food co-operatives are being developed in response to the needs of low income people for healthy, low cost food. Housing co-operatives are providing assistance to low income home-buyers and tenants.

**130.** As noted elsewhere this type of co-operative development depended on appropriate education, business and financial support. The establishment of these support agencies is critically dependent on an appropriate legislative and regulative framework and funding. In Italy, France and Spain co-operatives have developed their own developmental and financial support structures. In Australia, however, the movement is not capable at present of independently establishing its own support services — particularly for the emerging consumer, workers and housing co-operatives. While these co-operatives are at an early stage of development, then, there is a definite role for government. However, there is a danger that the usage of short-term creation funding programs to fund co-operatives could seriously distort their development, and that consequently government support should be distinct and discrete. In the short-term, however, it will be necessary for the Government to provide funds to assist the development of the emerging workers, housing and food co-operatives.

**131.** In summary, the following tentative observations are offered regarding an appropriate relationship between Government and the co-operative sector in the development of co-operation:

- There is scope for major development of the co-operative sector and movement in Victoria and Australia.
- The Government has a critical role in facilitating this development.
- The Government's role should be to assist and not direct the co-operative movement.
- A critical basis for this assistance would be a revised and rewritten Co-operation Act which facilitated co-operative democracy and new forms of co-operation e.g. worker co-operatives.

- The Government should continue to assist the consolidation of the emerging co-operatives - worker/industrial, housing and consumer.
- The Government will need to provide funds to ensure the development of the emerging co-operatives.
- The Government needs to recognize the similarities and differences between co-operatives and the subsequent consequence for policy and practice.
- The Government has a role in establishing and developing support structures for co-operatives i.e.
  - Co-operative financial institution(s)
  - Co-operative education and training
  - Co-operative development associations and federations, and/or agency(ies)

**132.** In assisting the establishment of support structures it will be necessary for the Government to address the following issues:

- The optimisation of scarce funding resources.
- The targetting of assistance to co-operatives.
- The extent to which it should devolve control of co-operative development to co-operative associations and federations.
- The role of co-operative, rather than hierarchical and bureaucratic principles to co-operative development.
- The need to ensure that award wages and working conditions are not undermined, and that the rights of workers to join trade unions are maintained.
- Ways of ensuring appropriate accountability for the usage of public funds.
- The need to avoid duplication of adaptable existing resources e.g. the TAFE system, while ensuring that co-operative development has the capacity to expand as and when required.
- The need to ensure that the different sectors of the co-operative movement are adequately and appropriately assisted.

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## Appendix B

### LEGISLATIVE REVIEW COMMITTEE DISCUSSION PAPER ON CO-OPERATIVE SOCIETIES

#### SUBMISSIONS RECEIVED:

- ABORIGINAL LAND COUNCIL VICTORIA
- ARTHUR YOUNG & COMPANY, CHARTERED ACCOUNTANTS
- ATTORNEY-GENERAL, THE HON. JOHN CAIN, M.P.
- AUSTRALIAN SOCIETY OF ACCOUNTANTS AND THE INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA
- CHIEF PARLIAMENTARY COUNSEL, MR J.C. FINEMORE
- COMMERCIAL CREDIT CO-OPERATIVE
- CO-OPERATIVE FEDERATION OF VICTORIA LTD.
- CORPORATE AFFAIRS OFFICE
- CREDIT SOCIETIES' GUARANTEE FUND ADVISORY COMMITTEE
- DEPARTMENT OF THE PREMIER AND CABINET
- EDUCATION CREDIT UNION
- GIPPSLAND & EAST GIPPSLAND ABORIGINAL CO-OPERATIVE LIMITED "WALLAMURRA" COMMUNITY CENTRE
- JOHN M. GALVIN & ASSOCIATES, BARRISTERS & SOLICITORS
- MAHONEY & GALVIN, SOLICITORS
- PRIMARY INDUSTRY BANK OF AUSTRALIA LIMITED
- SOUTHERN CREDIT CO-OPERATIVE ASSOCIATION LIMITED
- THE TREASURER OF VICTORIA, THE HON. ROB JOLLY, M.P.
- VICTORIA POLICE, ADMINISTRATIVE PLANNING, RESEARCH AND DEVELOPMENT DEPARTMENT
- VICTORIAN TRADES HALL COUNCIL
- V.P.S.A. CO-OPERATIVE SOCIETY LIMITED
- VICTORIAN CREDIT CO-OPERATIVE ASSOCIATION LIMITED

## CO-OPERATION ACT 1981

**Selected Statistical Information**

TYPE OF CO-OPERATIVE	NO. OF SOCIETIES REGISTERED	CHANGE	NO. OF MEMBERS	ASSETS 30.6.82
	30.6.83		'000s	\$m
Producer	68	0	32	23
Trading	107	+1	78.0	17
Community Settlement	29	+1	.4	3
Community Advancement	1,027	-3	97.0	32
Rental Housing	0	0	0.0	0
Credit	207	0	389.0	824
Associations	5	0	.2	59
<b>TOTAL</b>	<b>1,443*</b>	<b>1,444</b>	<b>596.6</b>	<b>948</b>

\*In this period there were 62 new general co-operatives registered, and 63 general co-operatives dissolved.\*\*\*

### 5-Year Statistical Table

Year ending	Producer	Trading	Community Settlement	Community Advancement	Credit**	Associations	TOTAL NO. OF CO-OPERATIVES		
							TOTAL	Registered	Dissolved
30.6.83	68	107	29	1,027	207**	5	1,443	62	63
30.6.82	68	106	28	1,030	207	5	1,444	95	91
30.6.81	68	108	28	1,028	210	4	1,446	107	71
30.6.80	70	106	29	991	214	4	1,414	124	48
30.6.79	67	99	26	928	213	4	1,337	120	72

\*\* It is estimated that of these 207 registered credit co-operatives, that due to mergers and amalgamations there are only approximately 171 operating entities.

88 <i>Operating under Co-operation Act</i>				
Producer	68	—	32.0	13
Trading	107	—	78.0	17
Community Settlement	29	D	.4	3
Community Advancement	1,027	—	97.0	32
Rental Housing	0	G	0.0	0
Credit	207	D	389.0	824
Associations	5	—	.2	59
Federation	1	—	Not avail.	Not avail.
<i>Operating under Co-operative Housing Societies Act</i>				
Co-operative Housing Societies	1,930	D	46.0	469
<i>Operating under the Building Societies Act (with a co-operative structure)</i>				
Permanent Building Societies	19	D	Not avail.	3,000
<i>Operating under the Companies Code</i>				
Co-operative companies	15	—	Not avail.	Not avail.
<i>Operating under the Industrial and Provident Societies Act</i>				
Industrial & Provident Societies	6	D	Not avail.	Not avail.
<i>Rental Housing Co-ops. funded by MOH but not yet registered</i>				
	8	G	Not avail.	Not avail.

D — Decline      G — Growing